

exogenous cost change in higher prices. For the adoption of FAS 106, we have shown that, in theory, the historical liability for post-retirement benefits would logically already have been captured in the output prices of firms in unregulated markets. To a first approximation, since most of American GNP is produced by firms whose prices reflect economic costs, the accounting change required by FAS 106 will result in no contemporaneous change in the GNP-PI

Historical experience also suggests that accounting changes have negligible effects on prices in unregulated markets and in the U.S. economy as a whole.²⁸ In 1987, the FASB changed the method of accrual accounting for pension benefits, a change which is similar in principle to the change contemplated in FAS 106, though smaller in magnitude. A search of the empirical literature reveals two studies of the effects of these accounting changes which both show no relationship between accounting changes and stock prices.²⁹ Assuming that (i) changes in stock prices reflect changes in anticipated profits and (ii) changes in accounting costs do not change economic

²⁸Modern finance theory as well as practicing financial analysts recognize that accounting changes do not change the underlying economic reality. For example, in discussing the ramifications of FAS 106, Solomon Samson of Standard & Poor observed, "The realities do not change simply because someone puts down a different number. Part of our trade is adjusting published numbers to reflect economic realities." (BNA Pensions and Benefits Daily, September 27, 1991.)

²⁹NERA undertook a DIALOG Database system search of the relevant literature, including the Economic Literature Index (1969-present), the Academic Index (1976-present), the Conference Papers Index (1973-present), Management Contents (1974-present), and Dissertation Abstracts (1961-present). These databases were searched using as keywords: "FASB," "Financial Accounting Standards Board," "Statement 87," "87," "pensions," and "economic". Fifteen publications were identified and two were relevant: (i) Sherree S. Ma, "An Empirical Examination of the Stock Market's Reaction to the Pension Accounting Deliberations of the Financial Accounting Standards Board," Doctoral Dissertation, University of Alabama, 1989, and (ii) Samuel S. Tung, "Stock Market Reactions to Mandatory Changes in Accounting for Pensions," Doctoral Dissertation, University of Wisconsin, 1987. Both works showed that no changes in stock prices could be attributed to the 1987 pension accounting changes.

costs, the fact that accounting changes do not affect stock prices implies that accounting changes do not affect output prices.³⁰

To refine this approximation somewhat, we observe that prices of some goods and services will change when FAS 106 is implemented in 1993: notably (i) regulated public utility services and (ii) certain government purchases of services under contracts which historically covered only pay-as-you-go costs and prospectively allow FAS 106 accruals. In 1987, regulated public utilities produced approximately 6.13 percent of U.S. GNP. Total government contract purchases (not just cost-plus contract purchases) were 4.36 percent of GNP in 1987.³¹ In total, what might be called the "cost-plus" sector of the economy produced less than 10.49 percent of GNP in 1987. We use 1987 for comparison because the 1987 government contract data is the latest available. Note that these proportions do not change much over time; Table 1 shows these proportions for 1980 and 1987.³² If all firms experienced the same expense change from FAS 106 in 1993 as Pacific Bell and if prices in the unregulated economy already reflect OPEB costs measured on an economic basis, then the overall price level in the U.S. would increase by less than 0.20 percent in 1993 when accrual accounting is

³⁰This follows from the observations that (i) profits represent the difference between output prices and costs and (ii) accounting changes affect neither profits nor costs.

³¹A GSA report tracks the annual value of Federal Government contracts issued in each year: see General Services Administration, Federal Procurement Data System Standard Report. For 1987, the amount of Federal contracts issued was \$197.3 billion which represents an update (obtained by telephone from the Federal Procurement Data Center) of the published figure.

³²Regulated public utilities include railroad transportation, local and interurban passenger transportation, pipelines other than gas, telecommunications, and electric, gas, and sanitary services. See U.S. Bureau of the Census, Statistical Abstract of the United States: 1990, (110th edition), Washington, D.C., 1990, pp. 425-426. We include data for 1980 to show that the industry components of GNP are reasonably stable over time.

Table 1.
Relative Size of the Cost-Plus Sector

	GNP by Industry current \$ billion 1980		GNP by Industry current \$ billion 1987	
GNP	\$2,732.0	(percent)	\$4,526.7	(percent)
Railroad	\$20.8		\$19.6	
Passenger transit	\$5.4		\$8.1	
Non-gas pipelines	\$4.7		\$5.3	
Telecommunications	\$60.2		\$108.3	
Electric, gas, sewer	\$68.4		\$136.4	
TOTAL UTILITIES	\$159.5	5.84%	\$277.7	6.13%
GOVERNMENT CONTRACTS			\$197.3	4.36%
TOTAL COST-PLUS SECTOR			\$475.0	10.49%

implemented.³³ Under these assumptions, less than 10.49 percent of Pacific Bell's exogenous cost change would be accounted for in the GNP-PI, and the required Z factor would exceed 89.51 percent of the exogenous cost change.³⁴ This estimate is unrealistic because all U.S. firms have not used OPEBs to the extent that Pacific Bell has.

An additional refinement to this upper bound would recognize that the effect of FAS 106 on Pacific Bell is far greater than on the typical firm in the U.S.

³³Pacific Bell expenses will increase 1.92 percent. If all cost-plus firms have the same proportional OPEB liability as Pacific Bell, the average liability will be a weighted average of 1.92 percent in the cost-plus sector and 0 elsewhere. Thus $(1.92 \times 0.1049) + (0.0 \times 0.8951) = 0.20$. Recall that this estimate is an upper bound because (i) all government contract purchases are included in the cost-plus sector, not just government purchases under cost-plus contracts, and (ii) the impact of FAS 106 on Pacific Bell is greater than on an average firm.

³⁴10.49 percent equals $0.20/1.92$; and 89.51 percent equals $1.72/1.92$.

economy. In order to understand what the important differences are, we engaged William M. Mercer, a leading employee benefits consulting firm, to develop and analyze basic facts about post-retirement benefits other than pensions. The most important differences between Pacific Bell and a typical firm appear to be the following:

1. Coverage: Pacific Bell provides post-retirement benefits to its entire pension-qualified labor force. In contrast, only about 40 percent of private sector workers are employed by firms that offer post-retirement health benefits.³⁵
2. Historical liability: Pacific Bell estimates that its accumulated historical postretirement benefit obligation will be about \$0.5 billion in 1993 in the interstate jurisdiction. This amount is about 33 percent of Pacific's annual interstate revenues, about 21 percent of Pacific's interstate net rate base, and about 37 percent of the equity component of the net rate base. In contrast, the accumulated historical liability for the U.S. economy is estimated at about \$300 billion.³⁶ This amount represents about five percent of U.S. GNP and on the order of 7 to 10 percent of corporate equity.³⁷

U.S. OPEB expenses are estimated to be about \$13 billion in 1993 on a cash accounting basis compared with about \$82 billion on an accrual basis in 1993.³⁸ The

³⁵United States General Accounting Office, "Extent of Companies' Retiree Health Coverage," Prepared for Congress, March 1990 (GAO-1990).

³⁶Statement of Gregory J. McDonald, United States General Accounting Office, Before the Subcommittee of Health, Ways and Means Committee of the House of Representatives, May 6, 1991.

³⁷U.S. General Accounting Office, "Companies' Retiree Health Liabilities Large, Advance Funding Costly," Report to Congress, June 1989 (GAO-1989). Mark Warshawsky, "The Uncertain Promise of Retiree Health Benefits: An Evaluation of Corporate Obligations," Retiree Health Benefits Seminar, American Enterprise Institute, Washington, D.C., April 9, 1991.

³⁸Mercer first evaluated a number of existing studies of corporate obligations for OPEBs and concluded that the GAO-1991 study was the most reliable in terms of credibility and methodology. This study produced an estimate of \$42 billion for accrual accounting expenses under FAS 106 procedures in 1991. Mercer then modified a number of assumptions to conform more closely with FAS 106 requirements and carried the calculations forward to 1993, in the process producing the higher figure.

change is thus \$69 billion out of an estimated GNP of \$6,260 billion, or 1.10 percent.³⁹ Since the incidence of OPEBs appear to be uniformly distributed across industries, it is reasonable to assume that firms in the cost-plus sector increase prices by 1.10 percent in response to FAS 106.⁴⁰ Firms in the rest of the economy have already reflected accrual accounting in their prices, so the net effect of FAS 106 on the GNP-PI would be less than 0.12 percent (twelve-hundredths of one percent) instead of the 0.20 percent bound calculated above.⁴¹ Thus, if cost-plus firms experience the U.S. average OPEB expense increase (1.10 percent) instead of the Pacific Bell increase (1.92 percent), GNP-PI would increase by less than 0.12 percent and the required Z factor would exceed 1.80 percent. Thus, less than 6.26 percent of the exogenous cost change is reflected in the GNP-PI, leaving more than 93.74 percent to be recovered through the Z factor.⁴²

This estimate of the effect of FAS 106 on the GNP-PI is an upper bound for several reasons. First, we have overstated the size of the cost-plus sector of the economy by assuming that all public utility prices are set using accounting costs and treating all government contracts as cost-plus contracts with accounting change escalators. Second, this calculation ignores second-order effects that would lower the impact on national output prices. As prices rise in the cost-plus sector, for example,

³⁹The 1993 GNP forecast was downloaded from Data Resources, Inc.

⁴⁰A GAO survey in 1990 compared health coverage of retirees by type of industry and concluded that there was "little variation among companies with retiree health benefits when comparing companies by industry group," GAO-1990 Report, pp. 6-7. Thus the impact of FAS 106 on expenses for firms in the cost-plus sector should be roughly the same as the U.S. average of 1.10 percent.

⁴¹Thus $(1.10 \times 0.1049) + (0.0 \times 0.8951) = 0.12$ percent.

⁴²Because $[1.92 - 0.12]/1.92 = 93.74$ percent and $0.12/1.92 = 6.26$ percent.

consumers substitute away from these goods and services which reduces the net effect of the price increase in the cost-plus sector on overall inflation. Finally, the calculation ignores second-order macroeconomic responses to the change in output prices through changes in government expenditure, interest rates and the money supply.

A summary of these calculations may be useful. Recall that we wish to increase Pacific Bell's price cap by 1.92 percent which represents the change in expenses due to the shift from cash to accrual accounting for OPEBs in 1993. Some of this increase will be accounted for by the change in inflation; the rest must be supplied through the Z-adjustment we are calculating. The increase in inflation due to FAS 106 is measured in two steps: (i) we calculate the effect of FAS 106 on the expenses of an average firm to be 1.10 percent, and (ii) we calculate the fraction of GNP produced by firms whose prices do not already reflect accrual accounting for OPEBs to be less than 10.49 percent. Since the incidence of OPEBs across industries is roughly constant, we estimate that the prices at which less than 10.49 percent of GNP is sold will increase by 1.10 percent, so that the increase in GNP-PI, averaged over all firms, will be less than 0.12 percent. Using this bound as an estimate, Pacific Bell's 1.92 percent price increase would thus consist of a 0.12 percent increase in GNP-PI and a 1.80 percent Z-adjustment. The required Z-adjustment (net of the change in GNP-PI) is thus at least 93.74 percent of the \$29 million change in expenses, or at least \$27 million.

These results are stable with respect to the various assumptions and forecasts that we have made. In Table 2, we summarize our previous results and provide new estimates assuming (i) a 100 percent increase in the effect of FAS 106 on an average

Table 2
Summary of Results
and
Sensitivity Analysis

	BASE CASE	NATIONAL FAS EFFECT IS 100% LARGER	COST-PLUS SECTOR IS 100% LARGER	PB REVENUE FORECAST IS 10% LARGER
PAC BELL FAS EFFECT	1.92%	1.92%	1.92%	1.74%
GNP-PI EFFECT	0.12%	0.23%	0.23%	0.12%
Z-ADJUSTMENT	1.80%	1.69%	1.69%	1.62%
% FAS IN GNP-PI	6.26%	12.01%	12.01%	6.89%
% FAS IN Z	93.74%	87.99%	87.99%	93.11%
Z	\$26,808	\$25,166	\$25,166	\$26,629

U.S. firm, (ii) a 100 percent increase in the cost-plus proportion of the U.S. economy, and (iii) a 10 percent increase in our forecast of Pacific Bell's 1993 revenues. Clearly, the results are insensitive to the assumptions.

APPENDIX

In this Appendix, we provide the details of the derivation of the price cap annual adjustment formula. The logic follows that of Dr. Schankerman, whose presentation of the price cap formula formed the basis of the California price cap plan.⁴³

A. The Relationship Among TFP, Input Price, and Output Price Growth

Consider a multiproduct firm having N outputs (Q_i^o , $i=1,\dots,N$) and M inputs (Q_j^i , $j=1,\dots,M$). We wish to calculate X and Z so that in all periods, economic profits are identically zero, i.e., that the value of total inputs (including a normal return on capital) equals the value of total output. The identity can be written as

$$\sum_{i=1}^N p_i Q_i^o = \sum_{j=1}^M w_j Q_j^i .$$

where p_i and w_j denote output and input prices respectively. Differentiating this identity with respect to time yields

$$\sum_{i=1}^N p_i \dot{Q}_i^o + \sum_{i=1}^N \dot{p}_i Q_i^o = \sum_{j=1}^M w_j \dot{Q}_j^i + \sum_{j=1}^M \dot{w}_j Q_j^i .$$

⁴³Testimony of Mark Schankerman on behalf of GTE California Incorporated, Docket I. 87-11-033, Technical Appendix, pp. 1-3.

where a dot indicates a derivative with respect to time. Dividing both sides of the equation by the value of output $R = \sum_i p_i Q_i^o$ or $C = \sum_j w_j Q_j^i$, we obtain

$$\sum_i p_i \left(\frac{\dot{Q}_i^o}{R} \right) + \sum_i \dot{Q}_i^o \left(\frac{p_i}{R} \right) = \sum_j w_j \left(\frac{\dot{Q}_j^i}{C} \right) + \sum_j \dot{Q}_j^i \left(\frac{w_j}{C} \right),$$

where R and C denote revenue and cost. If r_i denotes the revenue share of output i and c_j denotes the cost share of input j , then

$$\sum_i r_i dp_i = \sum_j c_j dw_j - [\sum_i r_i dQ_i^o - \sum_j c_j dQ_j^i],$$

where d denotes a percentage growth rate: $dp_i = \dot{p}_i / p_i$. The first term in the above equation is the revenue weighted average of the rates of growth of output prices, and the second is the cost-weighted average of the rates of growth of input prices. The term in brackets is the difference between the rates of growth of weighted averages of outputs and inputs and is thus the change in TFP. We can write the equation as

$$dp = dw - dTFP.$$

Thus the growth in input prices less the growth in output prices is equal to the change in TFP. This result requires only that excess profits are zero in every period. It does not require cost minimization, profit maximization, marginal cost pricing, or constant returns to scale.

B. The Price Cap Adjustment Equation

We begin with equation (3) from the text:

$$(6) \quad dp = dp^N - [dTFP - dTFP^N + dw - dw^N] + [Z^* - Z^{*N}].$$

If we measure national output price inflation by the change in GNP-PI, we obtain

$$(7) \quad dp = GNP-PI - X + Z'$$

where $X = [dTFP - dTFP^N] + [dw - dw^N]$ and $Z' = Z^* - Z^{*N}$. Since the percentage change in the regulated firm's output price between years $t-1$ and t is just $[p_t - p_{t-1}] / p_{t-1}$, we can write equation (7) as

$$\frac{p_t - p_{t-1}}{p_{t-1}} = GNP-PI - X + Z'$$

so

$$p_t - p_{t-1} = p_{t-1} \times [GNP-PI - X + Z']$$

which simplifies to

$$(8) \quad p_t = p_{t-1} \times [1 + GNP-PI - X + Z'].$$

Since revenue equals price times quantity, the revenue change associated with the price change in equation (8) is obtained by multiplying both sides of the equation by the fixed amount of quantity demanded:

$$q_{t-1} \times p_t = q_{t-1} \times p_{t-1} \times [1 + GNP-PI - X + Z']$$

or

$$(9) \quad R_t = R_{t-1} \times [1 + GNP-PI - X] + Z$$

where Z represents the total dollar value of the exogenous cost change rather than the unit cost change.

Appendix 2

Actuarial Report

ACTUARIAL REPORT

**PACIFIC TELESIS GROUP POST-RETIREMENT BENEFITS
OTHER THAN PENSIONS - MEDICAL/DENTAL/GROUP TERM LIFE INSURANCE
ACTUARIAL VALUATION PROJECTED TO 1993**

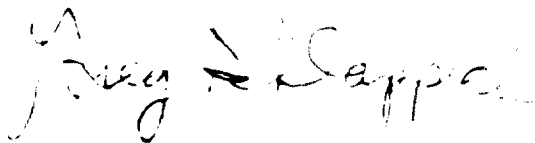
ACTUARIAL PROJECTION
FOR THE PACIFIC TELESIS GROUP
POST-RETIREMENT MEDICAL, DENTAL AND GROUP TERM LIFE INSURANCE PLANS
1993

This report covers both the funding and accounting requirements for the 1993 plan year.

The amounts presented in this report have been prepared in accordance with generally accepted actuarial principles and practices and reflect the law, regulations issued to date, and the requirements of Financial Accounting Standards No. 106 (FAS106).

Calculations are based on personnel and asset information supplied by the Corporation and the actuarial methods and assumptions described in this report. Further, the effects of the management in-force reduction and no Bargained VEBA contributions for years 1991 and 1992 are reflected in this report. The FAS106 Transition Obligation is amortized over 15 years, the average remaining service period for active participants. Allocation factors of 96% and 2% are used to determine the proportion of VEBA Contribution and FAS106 Expense for Pacific Bell and Nevada Bell, respectively. These actuarial allocations are necessary since VEBA assets are not maintained separately by Company. Derivation of these factors are summarized in the Appendix.

Users of this report should recognize that the report was developed to produce the required disclosures under FAS106 and to determine tax deductions under the Internal Revenue Code. Accordingly, appropriate adjustments may be needed if this information is used for any other purpose.



G. S. Schlappich
Associate, Society of Actuaries

May, 1992

TABLE OF CONTENTS

	<u>Page</u>
<u>SECTION ONE - MANAGEMENT SUMMARY</u>	
A. 1993 Costs	1
B. Funding Background	1
C. Expense Background	2
D. Data	4
 <u>SECTION TWO - MEDICAL AND DENTAL PLANS</u>	
<u>Funding Requirements</u>	
A. Introduction	7
B. Derivation of 1993 VEBA Contributions	8
C. Actuarial Method and Assumptions	9
<u>Accounting Requirements</u>	
A. Introduction	15
B. Derivation of FAS106 Results	16
C. FAS106 Actuarial Method and Assumptions	18
<u>Valuation Assets</u>	19
<u>Summary of Principal Plan Provisions</u>	
A. Health Care Network and Medical Expense Plan	20
B. Dental Expense Plan	21
C. Alternative Plans	21
 <u>SECTION THREE - GROUP TERM LIFE INSURANCE PLAN</u>	
<u>Funding and Accounting Requirements</u>	
A. Introduction	22
B. Derivation of 1993 VEBA Contribution	23
C. Derivation of FAS106 Results	24
D. Actuarial Assumptions	25
<u>Valuation Assets</u>	26
<u>Summary of Principal Plan Provisions</u>	27
 <u>Appendix - Derivation of the Allocation Factors for Pacific Bell and Nevada Bell</u>	

SECTION ONE

MANAGEMENT SUMMARY

SECTION ONE - MANAGEMENT SUMMARY

A. 1993 Costs (All Dollar Amounts in Thousands)

Funding:

VEBA Contribution (12/31):

		<u>All PTG</u>	<u>Pacific Bell</u>	<u>Nevada Bell</u>	<u>Other Subsidiaries</u>
Medical/Dental Bargained	-	\$184,651	\$177,265	\$3,693	\$3,693
Medical/Dental Non-Bargained	-	107,632	103,327	2,153	2,152
Group Life	-	3,341	3,207	67	67
Total	-	295,624	283,799	5,913	5,912

FAS106 Expense:

Medical/Dental	-	399,226	383,257	7,985	7,984
Group Life	-	3,279	3,148	66	65
Total	-	402,505	386,405	8,051	8,049

These results are based on 12/31/89 data, projected to 1993.

B. Funding Background

1. Legal Requirements

Cash contributions to the VEBAs must meet the legal funding requirements described in Section 419 of the Internal Revenue Code.

To meet these requirements, they must be based on:

- o An actuarial cost method which spreads costs between years in an acceptable manner, and
- o Actuarial assumptions that are each reasonable "taking into account experience under the Plan and reasonable expectations".

2. Actuarial Methods and Assumptions

The Individual Level Premium Actuarial Cost Method is used to calculate the medical/dental VEBA contributions. The Aggregate Actuarial Cost Method is used to calculate the Group Life VEBA Contribution. These methods are acceptable for funding purposes and spread the present value of benefits over the working lives of covered employees. Bargained VEBA contributions reflect no prefunding for years 1991 and 1992

Actuarial assumptions used to determine contribution levels include:

- o An interest rate to discount future benefit payments and contributions to today's dollars. 8.5% was used for the Bargained tax-exempt VEBA, 5% for the taxable Non-Bargained VEBA, and 8.5% for the Group Life VEBA.
- o The Bargained VEBA calculations use a medical inflation assumption which is 12% graded down to 6% over time for in-network benefits and 14% graded down to 6% over time for out-of-network benefits. No medical inflation is assumed for the Non-Bargained VEBA calculations in accordance with IRS requirements, and
- o Probabilities of retirement (including 1991 management in-force reduction), exit from employment, death, and disablement to predict incidences of future benefit payments and future work force levels based on current data.

The assumptions are illustrated at the end of the Accounting and Funding Requirements Sections.

3. Results

The chart on page 3 shows a comparison between VEBA assets and the FASB accrued liability as of January 1, 1993 for all PTG. Non-Bargained Medical/Dental VEBA assets are \$0 until December 31, 1993, the date of the first non-bargained VEBA contribution.

These amounts are composed of the following (in millions of dollars):

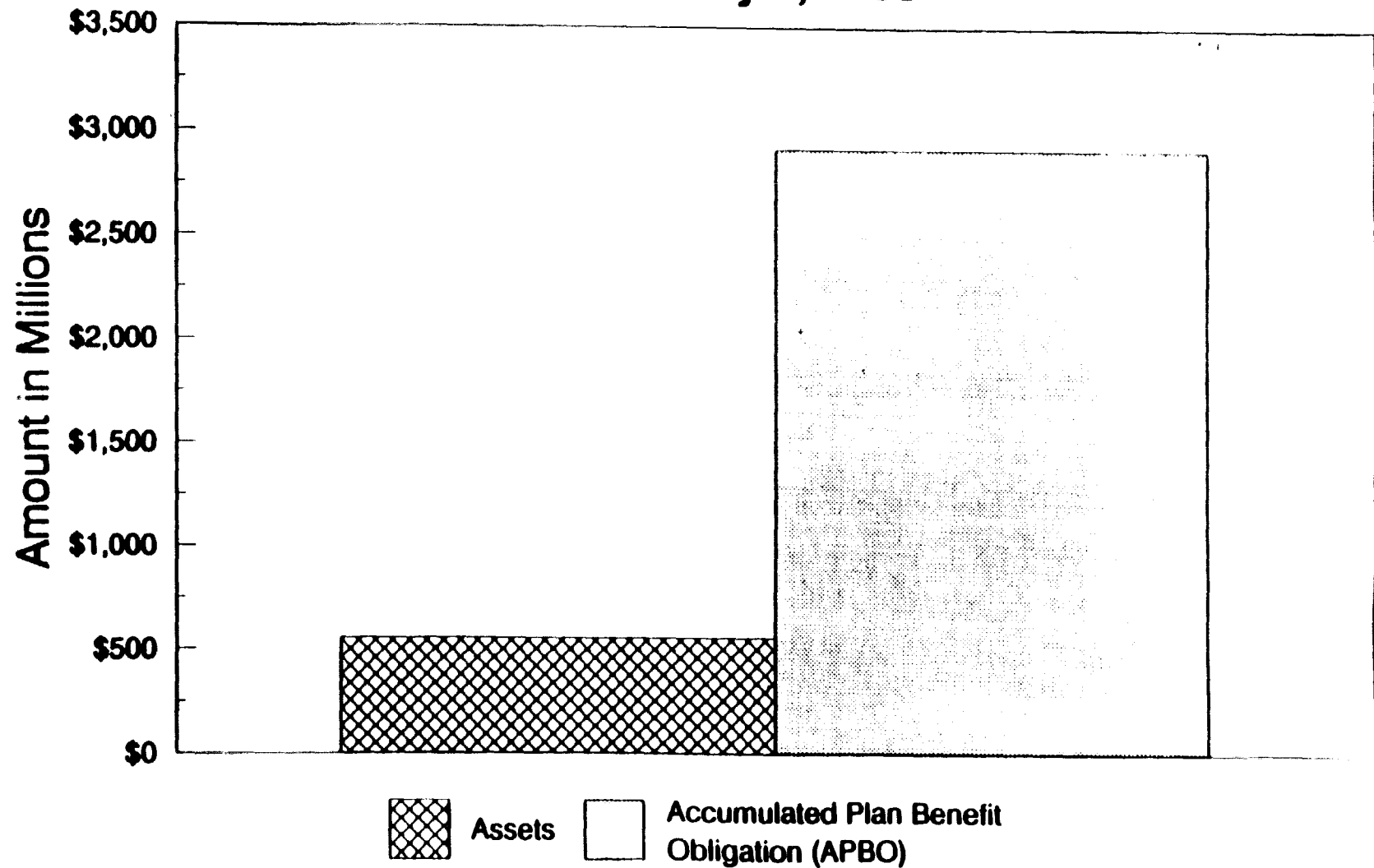
	<u>VEBA Assets</u>	<u>FASB Accrued Liability</u>
Medical/Dental	- \$211	\$2,578
Group Life	- 343	336
Total	- \$554	\$2,914

C. Expense Background

1. Accounting Requirements

Accounting requirements for post-retirement benefits other than pensions (PBOPs) are set by the Financial Accounting Standards Board in Statement of Financial Accounting Standards Number 106 (FAS106).

VEBA ASSETS vs FASB ACCRUED LIABILITY As of January 1, 1993



Totals for Pacific Telesis Group

2. Actuarial Methods and Assumptions

Calculation of PBOP expense under FAS106 requires different techniques and methods than those used for funding.

The Projected Unit Credit Method is the required actuarial calculation method. This method allocates cost to a given year based on the actuarial present value of the benefits "earned" in that year.

The actuarial assumptions are similar to those used for funding except that two interest rates are used (one to discount future benefit payments to today's dollars based on current economic conditions, and the other to predict long-term rates of return on plan assets). For determining 1993 PBOP expense, an 8.5% interest rate is used to discount benefit payments to today's dollars. For the VEBAs, 8.5% is also used for the long-term rate of return on plan assets. For in-network medical trend, 12% graded down to 6% over time was used for both Bargained and Non-Bargained groups (out-of-network medical trend assumed 14% graded down to 6% over time). The other assumptions are described at the end of the Accounting and Funding Requirements Sections.

3. Results

PBOP expense for 1993 calculated in accordance with FAS106 is \$403 million for all PTG. The chart on page 6 shows the components used to derive the total PBOP expense in accordance with FAS106.

D. Data

1. Source of Data

Data as of December 31, 1989 was supplied by each of the Corporation's subsidiaries covered by the Plans. Data for employees included birthdate, net credited service date, sex, and compensation information. Data for retirees included birthdate, sex, and type/amount/optional form of benefit, as well as beneficiary birthdate and relationship.

2. Testing of Data

Data was tested for reasonability and internal consistency.

3. Summary of Data

Actual data* relating to the Holding Company, Washington, Pacific Bell, Nevada Bell and Directory are shown below:

12/31/89

a. Employee Demographics

Number	63,492
Average Age	41.0
Average Service	15.5

b. Inactive Demographics

Number of Retirees	33,508
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* These data exclude 2,272 employees and 719 retirees who waived medical coverage.

c. Number of Active Employees by Age and Completed Years of Service As of December 31, 1989

Age Group	-----YEARS OF SERVICE-----							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
Under 20	47	0	0	0	0	0	0	47
20-24	775	17	0	0	0	0	0	792
25-29	1,095	1,698	472	0	0	0	0	3,265
30-34	884	3,668	4,795	366	0	0	0	9,713
35-39	719	2,518	4,422	5,412	805	0	0	13,876
40-44	534	1,265	2,453	5,414	5,850	346	0	15,862
45-49	219	551	1,002	1,783	3,549	2,598	77	9,779
50-54	93	245	524	848	1,285	1,307	1,239	5,541
55-59	40	103	274	506	524	402	1,341	3,190
60-64	15	52	142	261	225	91	426	1,212
65+	1	29	31	56	37	19	42	215
Total	4,422	10,146	14,115	14,646	12,275	4,763	3,125	63,492

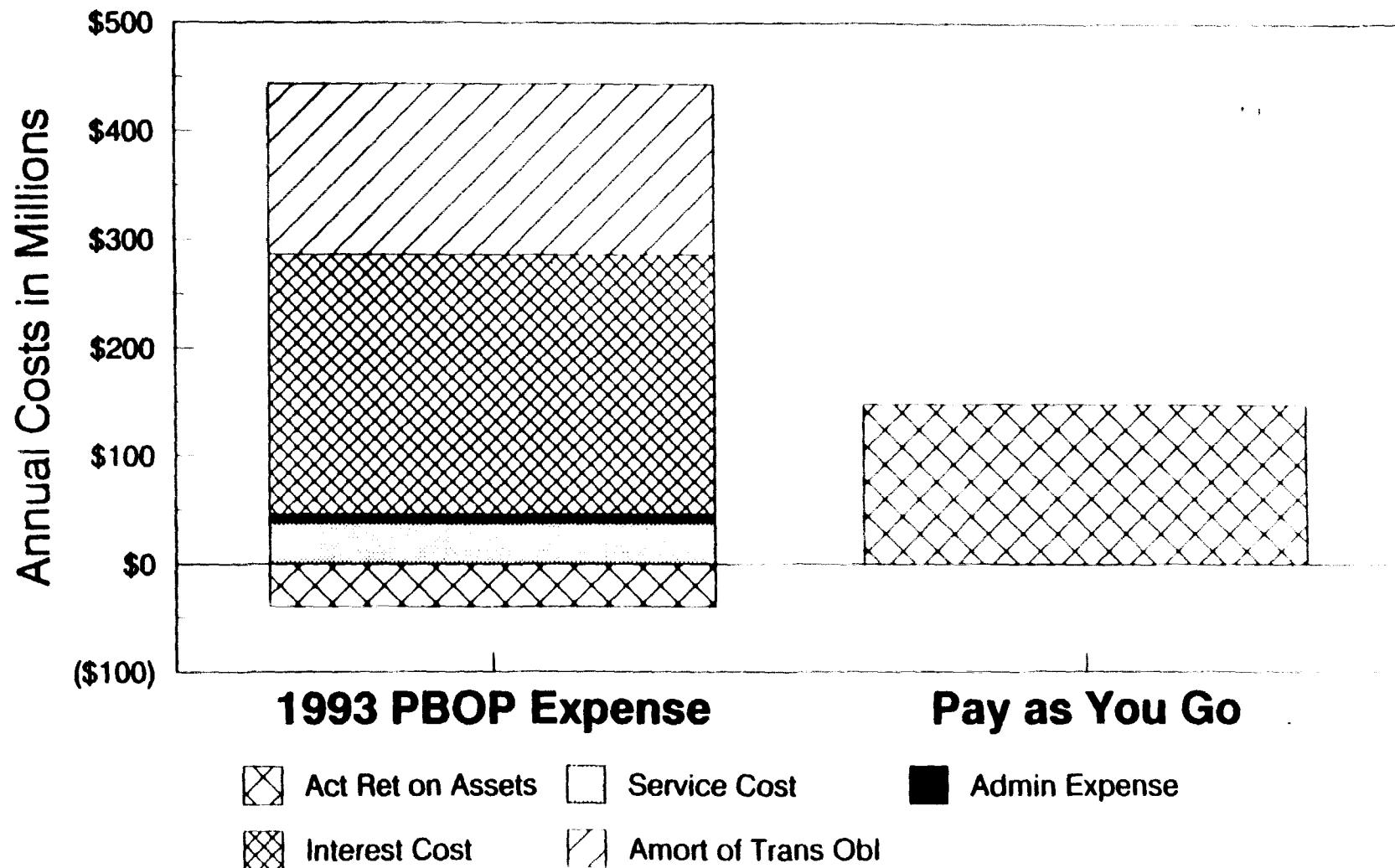
4. Participant data as of 12/31/89 for Pacific Bell, Nevada Bell and Other Subsidiaries are shown separately below:

	<u>Pacific Bell</u>	<u>Nevada Bell</u>	<u>Other Subsidiaries</u>	<u>All PTG</u>
a. Employee Demographics				
Number	58,228	891	4,373	63,492
Average Age	41.4	42.6	35.4	41.0
Average Service	16.1	17.3	7.2	15.5
b. Inactive Demographics				
Number of Retirees	32,570	312	626	33,508

SECTION TWO

MEDICAL AND DENTAL PLANS

COMPARISON OF PBOP EXPENSE WITH PAY AS YOU GO



The components of PBOP Expense net to \$403 million (the Actual Return on Assets is a negative component of this expense)
 Totals for Pacific Telesis Group

SECTION TWO - FUNDING REQUIREMENTS

A. Introduction

VEBA contributions are determined by applying the requirements of Section 419 of the Internal Revenue Code.

This section of the report includes:

- o The derivation of 1993 VEBA contributions (subsection B), and
- o The description of method and assumptions used in calculating the VEBA contributions (subsection C).

B. Derivation of 1993 VEBA Contributions (End of Year)
(All Dollar Amounts in Thousands)

	<u>Bargained VEBA</u>		<u>Non-Bargained VEBA</u>		<u>Total</u>
	Medical	Dental	Medical	Dental	
1. Normal Cost*	\$72,771	\$7,990	\$35,222	\$3,642	\$119,625
2. a) Accrued Liability	936,579	98,115	644,375	71,915	1,750,984
b) Assets	184,323	26,732	0	0	211,055
c) Amortization Factor	7.928	7.928	10.416	10.416	
d) Amortization Amount [(2a)-2(b)]/(2c)	94,886	9,004	61,864	6,904	172,658
3. VEBA Contribution: (1)+(2)(d)	167,657	16,994	97,086	10,546	292,283
4. Allocation factor for Pacific Bell	.96	.96	.96	.96	
5. VEBA Contribution for Pacific Bell: (3)x(4)	160,951	16,314	93,203	10,124	280,592
6. Allocation factor for Nevada Bell	.02	.02	.02	.02	
7. VEBA Contribution for Nevada Bell: (3)x(6)	3,353	340	1,942	211	5,846
8. VEBA Contribution for Other Subsidiaries: (3)-(5)-(7)	3,353	340	1,941	211	5,845

* Includes administrative expense.